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Income Statement

Income statement shows the profitability of the business

What's **sold** in the period
Minus
What it **cost (COGS)** to make
Minus
Operating **expenses** for the period
Equals
Income for the period

Sales-Costs & Expenses = Income

Net Income also called profits is at the bottom of the Income Statement.

Net Sales also called Revenue is at the top of the Income Statement

Sales are recorded on the Income Statement when the company actually ships the product to the customer. The customer has an obligation to pay for the product and the company has the right to collect (Accounts Receivable)

Net Sales means the total amount that the company will eventually collect from the sale.

Costs are expenditures for raw materials, worker's wages, manufacturing overhead etc. Costs are what you spend when you buy or make products for inventory.

When the inventory is sold, its total cost is taken out of inventory and entered in the Income Statement as Cost of Goods Sold.

Costs lower cash and increase inventory values on the Balance Sheet. Only when inventory is sold does its value move from the Balance Sheet to the Cost of Goods Sold on the Income Statement.

Gross margin is the amount leftover from sales after costs of goods sold are subtracted. Also referred to gross profit.

Operating Expenses directly lower income and are pay for the act of selling products and for running the general and administrative aspects of the business, for example, advertising, marketing, research, and development, etc.

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Balance Sheet

Assets - Liabilities = Worth
“Have” “owe” “value to owners’

The Balance Sheet represents the financial picture of the company on a particular day, and instant in time on the day it was written

The Balance Sheet:

- Assets-what the company has today
- Liabilities-how much the company owes today
- Equity-what the company is worth today

Assets are everything you own-cash in the bank, inventory, machines, buildings, etc. Also includes the right to collect cash, like Accounts Receivable

Accounts Receivable-owed to the company from customers who have ordered goods but have not yet paid for them. Customer accounts that buy on credit.

Fixed Assets are usually building, equipment, machinery, furniture, and vehicles. Reported at cost on the Balance Sheet.

Accumulated Depreciation is the decline in useful value of a fixed asset due to wear and tear from use and time. Depreciating an asset means spreading the cost to acquire the asset over the asset’s entire useful life.

Liabilities are obligations of the company, for example, money owed to lenders, taxes, suppliers, etc.

Accounts Payable-are bills usually to other companies for materials bought on credit

Taxes Payable-is taxes that the company has incurred but has yet to pay the government

Long-term Liabilities-debt that is longer than one year.

Equity-represents the value of the company that belongs to the owner

Cash Flow Statement

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The Cash Flow Statement tracks the movement of cash through the business over a period of time.

A company's Cash Flow Statement is just like a check register-recording all the of the business's transactions that use cash or supply cash.

Cash on-hand at the start of the period
Plus
Cash received in the period
Minus
Cash spent in the period
Equals
Cash on-hand at the end of the period

A positive cash flow for a period means the business has more cash at the end of the period than at the beginning

A negative cash flow means that the company has less cash at the end of the period than at the beginning.

Cash receipts are inflows of money coming from operating activities. Cash receipts come from collecting money from customers. Cash receipts increase the amount of cash the company has on hand. Cash receipts are not profits.

Receiving cash from customers decreases the amount that is due to the company as accounts receivable on the Balance Sheet

Cash disbursements are outflows of money used in operating activities. Cash disbursements are writing a check for rent, inventory, and supplies or for a worker's salary. Cash disbursements lower the amount of cash the company has on hand. Cash disbursements are also called payments.

Cash Disbursements to suppliers lower the amount the company owes as reported in Accounts Payable on the Balance Sheet

Net Borrowing money increases the amount of cash a company has on hand. Paying back the loan decreases the amount of the company's cash on hand.